

Ovation

SOUND FINANCIAL MANAGEMENT



The Ovation Guide to

Philanthropy

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Why are you, a financial planning firm, writing a guide on philanthropy

Many of our clients are in the fortunate position of having more money than they are likely to need. We help create a plan for their income, perhaps to set aside funds future eventualities such as long term care or for passing their wealth to the next generation(s).

But there might be some money left over once the planning is done. Or perhaps there is a desire to support an institution that helped a poorly relative. It could be a donation, or maybe setting up a fund or a foundation. Studies have shown that a donor gains huge personal satisfaction and benefit from philanthropy.

There are also significant tax breaks for donating which we want our clients to be aware of.

Tell me more about the tax breaks

Well, Gift Aid is pretty well known. It means that charities can claim back the basic rate tax you've paid (20%) on the gift you make.

If you are a higher rate tax payer, there is a further 20% tax that you can reclaim through your tax return or tax coding.

What does that mean in hard cash?

Here's an example. Let's say you make a £10,000 donation to charity and you are a higher rate payer.

You will have paid 20% basic rate, which means £2,500 can be reclaimed by the charity through gift aid (20% of £12,500 is £2,500). You can then also claim a tax rebate of £2,500.

So the gift actually only costs you £7,500, and the charity receives £12,500.

I might need the money in my lifetime. I'm a little reluctant to give any away now

That's ok, why not include a charitable donation in your will. This will reduce the size of your estate liable to inheritance tax and, if you give at least 10% of your net estate, then it may well reduce the 40% tax charge down to 36%!

Let's give another example:

	Amounts	Amounts
Estate Size	£2,000,000	£2,000,000
Nil Rate Band	£325,000	£325,000
Net Estate	£1,675,000	£1,675,000
Charity Gift		£167,500
Taxable Estate	£1,675,000	£1,507,500
Tax Rate	40.00%	36.00%
Tax Due	£670,000	£542,700
Beneficiaries	£1,330,000	£1,289,800
Charity	£0	£135,000

So giving away £167,500 has actually only reduced the amount to the beneficiaries by £40,200 – that's the equivalent of £94,800 from the tax man.

I do like the idea of helping others. So do I just hand over the cash to my chosen charity?

There are several ways to make charitable gifts.

One is directly to the charity, either in your lifetime or in your will as outlined above. Which is, as you say, a question of handing over the cash.

What if I wanted a bit more control?

You might like the idea of a Donor Advised Fund (DAF for short, because everything with three words has to have an acronym. It's an unwritten law). This is most relevant to donations of £20,000 or more.

A DAF is a philanthropic fund held within a charitable organisation, such as NPT-UK [click here](#). The same tax rules apply to any payments into the DAF as outlined above, as long as there has been sufficient tax paid in that tax year to reclaim.

The fund gets invested (perhaps using the advice of Ovation if the fund is over £100,000) and then you recommend grants to your chosen charities as and when you decide to. The fund can continue for many years, even indefinitely. The NPT-UK have an excellent FAQ section [click here](#).

The DAF will suit anyone who wants to be philanthropic on an ongoing basis, without having complicated administration worries. Do

remember that the donation to the DAF is irrevocable.

You may also wish to consider community foundations, here you can make a donation to set up your own designated fund with them. These foundations concentrate their efforts on local organisations and you can decide which ones these are. A good example of such a foundation is the Quartet Foundation based in Bristol <http://quartetcf.org.uk/>

What if I want total control, perhaps even involvement?

Then you may want to consider a your own Foundation. This is rather like setting up your own charity, in that it needs a Board of Trustees, legal advice, full reporting to the Charity Commission, and so on. Not really worth thinking about for anything less than £750,000.

This all sounds rather interesting. But how do I know how much I can comfortably give?

That's where the Ovation financial planning comes in. We can forecast what you will need in the future, perhaps with the aid of cash flow modelling, in order to help you make financial decisions.

We can factor in charitable donations and re-forecast to determine what your financial future will look like, and in this way help decide if a donation is prudent, and how much.

I've got a few shares that I don't really want. Might they make a good source of funds for donating?

Yes they would, and there can be extra tax benefits, as long as they are listed on a stock exchange. For example you would get full income tax relief, both basic and higher rate, AND the disposal would not incur capital gains tax. It's known as Donating Appreciated Shares and can be a great way of making a donation.

Great stuff. What's the next step?

Well, first of all, we should give some careful thought as to what you want to achieve from this philanthropy. Do you want involvement in the charities you are supporting, for example, in which case you may be looking at sponsorship rather than donation. The same might apply if the money is coming from business funds, rather than personal.

It may be that you already have an idea of how much funds you want to set aside, or you would like us to help you think about this with cashflow modelling, in which case there's lots of information we'll need from you.

Philanthropic giving can be immensely rewarding for all parties concerned. The chances of this being a pleasant experience are greatly increased by taking some time to plan the approach. Come and talk to us and we will help guide you through the process.

For help with this and all financial services speak to Ovation

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Return to web site: www.ovationfinance.co.uk

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